



The Economic Outlook

The Hong Kong economy is projected to sustain moderate growth momentum in 2015. However, the local economic outlook is clouded by the variation in monetary policies and the diverse economic performance of major economies, in addition to uncertainties in global fund flows, exchange rates, interest rates, asset prices and liquidity conditions.

The Hong Kong banking sector remains in good shape, characterised by favourable liquidity conditions, strong capital positions by international standards and sound asset quality. Nevertheless, banks are expected to remain alert to potential risks as the uncertainties in the external environment may trigger corrections in asset markets and funding volatilities. At the same time, significant steps have been taken to strengthen Hong Kong's financial safety net to provide further protection for depositors and consolidate banking stability. Indeed, legislative proposals to enhance the payout efficiency of the DPS and establish a cross-sectoral resolution regime for financial institutions in Hong Kong are expected to be introduced into the Legislative Council in 2015.

Business Plan and Key Initiatives

DPS Enhancements

We look forward to an amendment bill to put into effect the proposals designed to achieve a faster payout to depositors in the event of a bank failure. Coupled with this will be the implementation of the reforms once the required legislative approval has been obtained. These will not only involve the Board in revising systems and operational procedures, but also the banking industry in making the necessary adjustments to capitalise on the full impact of the DPS improvements enabling depositors' quick access to their deposits upon a bank failure.

The Board will continue to keep in view the latest developments of the resolution regime, and co-ordinate with the relevant authorities to maximise DPS functions within the regime, taking into account international principles and best practices.

Enhancing Payout Readiness

The payout readiness of Scheme members will be improved through the strengthened compliance programme for the information submission requirements. After evaluating the self-declaration results of all Scheme members and the comprehensive assessment reports by independent auditors from selected Scheme members, the Board will identify areas that can be further enhanced to raise the quality and timeliness of the information provided. A database repository capturing Scheme members' depositor statistics and banking product information provided in their annual returns will also be developed to assist in payout preparations.

A payout rehearsal is scheduled for later this year to verify the overall robustness and effectiveness of the reformed payout operational model, in particular the benefits of undertaking an advance payout preparation under the early warning system established with the HKMA. In the rehearsal, an extensive network of payout agents will be engaged to test whether they can respond swiftly, co-ordinate effectively and arrange work priorities flexibly to handle different scenarios during the evolution of a bank crisis. Payout walk-throughs and simulation tests will continue to be performed regularly to maintain payout readiness and explore every opportunity for improvement.

With the potential of electronic payment channels affirmed as a supplement to paper cheques for disbursing payment to depositors, the Board will keep in view the development of these channels and, when conditions are right, formulate a plan and define operational, technical and security requirements for implementation.

Compliance of Scheme Members and Ensuring Effective DPS Coverage

All Scheme members will continue to be subject to an annual self-assessment review to assess their compliance with the Representation Rules. This will help to ensure that their disclosures to the public about their status and the protection of deposit products are appropriate. With the HKMA's assistance, the Board will also continue to conduct on-site examinations to supplement the self-assessment review, and investigate any potential non-compliance issues that it identifies.

The regular survey for monitoring the implications of the popularity of structured deposits, which are outside the protection net under the ambit of the DPS, will be conducted in the second half of 2015.

Reinforcing Public Awareness and Understanding

The Board will continue to attach great importance to the coverage and effectiveness of its publicity and community education efforts. The Board will complement multi-media advertising campaigns with other targeted initiatives designed to help the public better understand the key features of the DPS.

In order to generate greater synergy and maximise the benefit from extending the reach of the DPS messages, the Board will continue to follow an integrated approach in carrying out its multi-channel publicity and community education activities. Taking advantage of the tools provided by social media platforms to connect with people, the Board will endeavour to use them more widely for interacting with new and existing audiences. To reinforce the overall public understanding of the DPS messages and to further reach out to different groups, the Board will organise a new Hong Kong-wide interactive promotional campaign and step up its neighbourhood outreach and educational efforts. Capitalising on the successful co-operative experience with other organisations sharing the common objective of equipping the public with financial knowledge, the Board will explore new opportunities to meet the demand of different community segments.

The Board is conscious of the need to continually improve public awareness and understanding of the Scheme as this will help contribute to greater public confidence in the banking system. To monitor the effectiveness of our publicity and community education drives, and to devise informed longer-term plans, the Board will continue to track the general public's perception and understanding of the DPS.

Maintaining Administrative Efficiency and Effectiveness

The Board will assess and collect contributions by Scheme members for 2016 under the well-established mechanism based on their returns of relevant deposits and the supervisory ratings assigned to them by the HKMA. The accuracy of these returns will remain subject to monitoring by the Board through reviews of their audit reports.